

-RESEARCH ARTICLE-

CREATIVE ACCOUNTING PRACTICES BY COMPANIES LISTED ON THE KUWAIT STOCK EXCHANGE (KSE)

Abdullah AL-Mutairi

International University of Science & Technology in Kuwait.

Email: abdullah.almutairi.a@iukt.edu.kw

Kamal Naser

International University of Science & Technology in Kuwait.

Email: kamal.naser@iuk.edu.kw

Bader AL-Mutairi

Kuwait State Audit Bureau.

Email: bader_al@hotmail.com

—Abstract—

This research endeavours to investigate diverse dimensions of creative accounting (CA) practices deployed by entities listed on the Kuwait Stock Exchange (KSE). In pursuit of this aim, a questionnaire was manually disseminated to auditors affiliated with prominent "big-four" audit firms, local audit entities, and audit companies listed on the KSE. Analysis of the questionnaire responses unveiled that the utilization of CA techniques by KSE-listed entities conforms to legal frameworks. Primarily, these techniques are wielded to engender investor interest in financial markets, align with extant investor anticipations, and entice potential investors. Notably, CA practices manifest predominantly through manipulations of accounting measurements and disclosures, exerting principal influence on the balance sheet. Sectors such as oil and gas, telecommunications, and manufacturing exhibit heightened propensity for employing CA methodologies. Commonly employed CA techniques among KSE-listed entities encompass off-balance sheet financing, capitalization of interest costs,

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proliferation of accounting policies and treatments, pre-acquisition write-downs, and capitalization of research and development (R&D) expenses. Mitigation of CA practices can be effectuated through the implementation of stringent internal audit mechanisms, adherence to unified bookkeeping and accounting systems, cultivation of an ethical organizational milieu, and enforcement of rigorous accounting standards.

Keywords: Creative Accounting, Ethical Principles, Financial Reporting, Accounting Practice, Kuwait.

INTRODUCTION

The phenomenon of CA has garnered increasing scholarly attention within the accounting domain, prompting a surge in theoretical and empirical inquiries. These investigations have delved into various facets of CA practices, encompassing inquiries into their legitimacy, rationales underpinning their utilization, strategies for mitigating their occurrence, sectors and financial statements most susceptible to their influence, as well as the prevalent CA techniques. [Naser \(1993\)](#) delineated CA as the manipulation of financial accounting data to align with the preferences of preparers, exploiting existing accounting frameworks and standards. Such practices may engender artificial profit inflation in large enterprises, thereby elevating share prices, or conversely, facilitate profit diminution in smaller entities to curtail tax liabilities. However, the applicability of these motives in affluent nations like Kuwait, where corporate entities enjoy tax exemptions and governmental financial assistance, is limited. Tax exemption policies mitigate incentives for income manipulation, while government support reduces reliance on external financing among companies.

Against this backdrop, this study aims to scrutinize the multifaceted aspects of CA within companies listed on the KSE. The findings of this investigation hold relevance for both auditors and investors. For auditors, insights gleaned from this study could inform adherence to ethical precepts in their professional conduct. Meanwhile, investors stand to benefit from enhanced decision-making capabilities informed by a deeper understanding of CA dynamics. Moreover, this research endeavours to elucidate factors contributing to CA practices within Gulf Cooperation Council (GCC) nations, thereby enriching the existing literature and augmenting the sparse body of empirical studies on CA within the GCC region. Given the corporate tax exemptions prevalent in these countries, coupled with ready access to financial institutions and governmental funding sources, the findings of this study are poised to offer a novel perspective on CA practices within this context.

The subsequent sections of this study are structured as follows. Section two provides a succinct overview of pertinent literature and prior research. Section three delineates the methodology employed for data collection and study execution. Empirical findings are expounded upon in section four, followed by a conclusive summary in the concluding section.

RELATED LITERATURE AND RESEARCH QUESTIONS

CA entails the utilization of the adaptable framework afforded by accounting principles to tailor the presentation of financial figures in a manner that serves the objectives of the preparer rather than the user (Khatri, 2015). It is alternatively referred to as earnings management (Mahmia, 2017), cosmetic accounting (Karim, Fowzia, & Rashid, 2011), the art of financial manipulation (Jain & Godha, 2015; Rajput, 2014), or aggressive accounting (Salome, Ogbonna, & Ezemoyih, 2012). Dur-e-Shawar & Qaisar (2015) posit that such manipulations can be mitigated through robust internal control mechanisms within corporations, adherence to corporate governance codes, and adherence to financial reporting regulations. Karim et al. (2011) assert that CA can have both positive and negative ramifications. It may prove beneficial when it contributes to enhancing the efficacy of the prevailing accounting framework. Conversely, it can have detrimental consequences when employed unethically to deceive a specific segment of financial statement users. Mahmia (2017) underscores the contentious nature of CA, with proponents and opponents both voicing their perspectives on its utilization.

Within empirical literature, numerous investigations have scrutinized the utilization of CA techniques across diverse nations. For instance, in Greece, studies by Spathis (2002), Baralexis (2004), and Pazarskis, Drogalas, & Baltzi (2017) explored this phenomenon. Similarly, in South Africa, Rabin (2005) and Ruddy & Everingham (2008) delved into CA practices. Studies from Bangladesh by Sen & Inanga (2005), Karim et al. (2011), and Asif et al. (2016) also contribute to this discourse. Pakistan-based investigations by Shah & Butt (2011) and Malik, Liu, & Kyriacou (2011) are noteworthy, as are those from Turkey by Atik & Ismail (2011) and Ozkaya (2014). In Nigeria, studies by Ibanichuka & Ihendinihu (2012), Salome et al. (2012), Ijeoma (2014), and Micah & Chinwe (2014) have examined CA phenomena. Investigations from Zimbabwe by Hosho, Matowanyika, & Chinoda (2013) and Mutanga, Kaja, & Moyo (2015) are also significant. Additionally, studies in Jordan by Al Momani & Obeidat (2013) and Wokukwu (2015), in Iraq by Hamad (2014) and Jabbar (2018), and in India by Rajput (2014), Bhasin (2015), and Jain & Godha (2015), as well as those in Malaysia by Rozidi et al. (2015) and Bhasin (2016), have contributed to the

understanding of CA practices. Investigations from Kenya by Nyabuti, Memba, & Chege (2016), Kamau, Namusonge, & Bichanga (2015), and Kamau, Namusonge, & Bichanga (2016), and those from Sri Lanka by Nisansala & Aruppala (2016) further enrich the literature. A succinct overview of these studies is provided in the subsequent section.

Spathis (2002) conducted a study utilizing financial data from 76 manufacturing firms, categorizing them into 38 instances of false financial statements (FFS) and 38 instances of non-false financial statements (NFFS). Employing logistic regression analysis, the researcher sought to elucidate the determinants associated with FFS, revealing that despite comprehensive accounting regulations, CA is prevalent in Greece. Similarly, Baralexis (2004) employed a questionnaire distributed among auditors and accountants to investigate CA practices within the Greek context, reaffirming the prevalence of CA despite stringent accounting regulations. Baralexis observed that large enterprises tend to inflate profits primarily driven by the imperative for external financing, whereas smaller entities tend to deflate profits to mitigate income tax obligations. Furthermore, Pazarskis et al. (2017) utilized logistic regression analysis to assess the impact of financial statement falsification among firms listed on the Athens Stock Exchange during the period spanning 2008 to 2015. Their analysis identified ten out of twenty-five ratios utilized in auditing practices for discerning the presence or absence of financial statement falsification. Notably, Pazarskis et al. (2017) contended that three ratios—namely return on assets, gearing, and interest cover—function as pivotal "red flags" during the auditing process.

Rabin (2005) surveyed audit partners and senior managers at "big four" auditing firms to gauge their perceptions of CA. He identified a significant correlation between auditors' evaluations of the reliability and relevance of reported data and their attitudes toward CA. In a separate investigation, Ruddy & Everingham (2008) utilized a case study-based experimental approach involving final-year accounting students in South Africa in 2002. They concluded that the capacity to recognize and address CA practices is influenced by the depth of accounting knowledge and exposure to such issues in practical settings.

Sen & Inanga (2005) employed a questionnaire to evaluate CA practices in Bangladesh, determining that such practices are typically utilized to entice unsuspecting investors or secure unwarranted accounting-based benefits through the presentation of inflated, occasionally misleading, or deceptive financial portrayals of a company's status. They advocated for preventive measures against CA within corporate enterprises,

emphasizing the necessity to curb its prevalence rather than merely halting its occurrence. Furthermore, [Karim et al. \(2011\)](#) investigated the perspectives of external auditors, internal auditors, and accountants regarding the causes, methodologies, and remedies for cosmetic accounting. Their findings revealed divergent perceptions among these three respondent categories concerning various facets of cosmetic accounting. Notably, they observed that a majority of accountants primarily aim to attract more shareholders through the adoption of cosmetic accounting, whereas internal auditors accorded lesser significance to this objective, and external auditors displayed moderate responsiveness to it. In a related study, [Asif et al. \(2016\)](#) endeavoured to propose solutions to the pervasive prevalence of CA practices among accountants and auditors in Bangladesh. They concluded that addressing this issue necessitates the imposition of punitive measures by national regulatory bodies, the introduction of forensic accounting practices and dedicated forensic units to oversee compliance and practices, prioritizing adherence to ethical codes of accounting conduct, and fostering widespread awareness among investors regarding CA practices.

[Shah & Butt \(2011\)](#) undertook an examination of CA practices to elucidate the motivations behind managerial adoption of CA and the mechanisms through which they effectively execute such practices despite the presence of rigorous regulatory frameworks. Their findings highlighted the intricate and multifaceted nature of business transactions, rendering the mitigation of CA challenges inherently complex. However, they contended that CA resolutions are not inherently unethical; rather, the ethicality and justification thereof hinge upon the intent and extent of disclosure. Similarly, [Malik et al. \(2011\)](#) investigated the phenomenon of CA, noting a convergence of perspectives regarding the utilization of such practices. Their study furnished empirical evidence suggesting that financial metrics could serve as discerning tools for identifying companies potentially engaged in CA. Notably, they underscored the significance of the gearing ratio among various financial indicators associated with CA practices.

[Atik & Ismail \(2011\)](#) conducted a questionnaire survey targeting financial analysts, portfolio managers, and financial statement preparers to assess variations in ethical perceptions regarding earnings manipulations. Their findings indicated that fraudulent accounting is regarded as the most unethical form of earnings manipulation, followed by manipulation through accounting adjustments and operational alterations. [Ozkaya \(2014\)](#) scrutinized CA practices within the Turkish public sector spanning from 1989 to 2010. The study revealed instances where the Turkish authorities misled the International Monetary Fund (IMF) regarding the extent of public debt stock in the late 1990s. Furthermore, the researcher illustrated that the magnitude of undisclosed

liabilities significantly impacted the IMF stabilization program of 1999, particularly affecting its initial and subsequent phases. In a Nigerian context, [Ibanichuka & Ihendinihu \(2012\)](#) distributed a questionnaire among accountants to investigate the correlation between CA and the reported financial performance of banks and insurance companies, along with its influence on their dividend pay-out ratios. Their findings indicated a positive association between CA techniques and firm financial performance, significantly impacting dividend pay-out ratios.

[Salome et al. \(2012\)](#) surveyed accountants and auditors to gauge the impact of CA on job performance in Nigeria. They noted that while accountants and auditors engaged in CA to bolster investor confidence and resource acquisition, instances of deceptive or fraudulent accounting practices often led to severe repercussions. Similarly, [Ijeoma \(2014\)](#) distributed questionnaires among bank managers and accountants from five commercial banks in Nigeria, revealing that a primary motive behind CA practices is to inflate operating costs to mitigate tax liabilities. Additionally, [Micah & Chinwe \(2014\)](#) surveyed auditors to investigate the potential impact of CA on organizational effectiveness. Their findings indicated that manufacturing firms resort to CA to project legitimacy, suggesting the adoption of IFRS to curtail judgment estimations in accounting treatment for certain items.

[Hosho et al. \(2013\)](#) employed a combination of questionnaire surveys and interviews to evaluate the efficacy of the internal audit function in detecting CA within large cotton companies in Zimbabwe. Their findings underscored a discernible correlation between the presence of an internal audit function and the capacity to uncover instances of fraud within organizational structures and their subsidiaries. They noted a direct relationship between the frequency of internal audit visits and the incidence of reported frauds, suggesting that heightened internal audit activity corresponds to increased fraud detection rates.

In a related study, [Mutanga et al. \(2015\)](#) distributed questionnaires among accountants to investigate the phenomenon of role conflict and its repercussions among accountants within listed companies in Zimbabwe. Their findings indicated the prevalence of role conflict among accountants, with job stress and intentions to resign being identified as the primary outcomes of such conflicts. They observed that a common strategy employed by accountants to address role conflicts is to elucidate the scope of their professional roles to others. The researchers recommended the implementation of appropriate job design strategies and the engagement of industrial psychologists, where necessary, to effectively manage stress-related issues. [Al Momani & Obeidat \(2013\)](#) utilized the multiple linear regression method to scrutinize the influence of audit ethics on auditors' ability to detect

instances of CA in Jordan. Their findings highlighted the pivotal role of auditors' independence in influencing their aptitude for detecting CA practices. Additionally, they identified organizational structure, advertising rights, and contingent fee arrangements as factors influencing auditors' ability to detect CA practices. Similarly, [Wokukwu \(2015\)](#) investigated the interplay between auditors, accounting regulations and standards, and external factors in the context of revenue recognition and earnings management in Jordan. His findings indicated a strong managerial inclination toward selecting accounting policies from the array of options offered by Generally Accepted Accounting Principles (GAAP) to meet or exceed market expectations.

[Hamad \(2014\)](#) administered a questionnaire among licensed auditors in Iraq to investigate the methodologies employed in CA practices and their impact on financial data. The study revealed that the primary objective of CA is to enhance the presentation of income figures for various purposes. The researcher advocated for the implementation of requisite legislation to mitigate CA practices and suggested the imposition of penalties to deter the manipulation of financial data. Similarly, [Jabbar \(2018\)](#) provided empirical evidence indicating that earnings management significantly influences the credibility of financial statements, potentially rendering them misleading. This phenomenon can compromise the quality characteristics of objectivity and credibility, thereby impacting the decision-making processes of financial statement users. In a review of ethical considerations surrounding CA, [Rajput \(2014\)](#) concluded that accountants in India should adopt legitimate methodologies to achieve favourable outcomes for management, with any instances of misconduct reported to the appropriate authorities. Furthermore, [Bhasin \(2015\)](#) conducted a questionnaire survey among auditors to examine CA practices in India, revealing that CA is often a deliberate attempt by accountants, managers, and companies to gain undue advantages. The researcher recommended the establishment of effective accounting regulations within the corporate sector to mitigate the adverse effects of CA practices in India. Moreover, [Jain & Godha \(2015\)](#) endeavoured to elucidate CA practices, noting the inherent challenges in completely eradicating such practices due to the involvement of managers, auditors, and regulatory loopholes.

[Rozidi et al. \(2015\)](#) conducted a questionnaire survey targeting auditors to explore the interplay between auditors' ethical judgments, the quality of financial reporting, and their attitudes towards CA. Their findings revealed a significant correlation between auditors' ethical judgments and the quality of financial reporting, suggesting that ethical considerations play a crucial role in shaping the integrity of financial disclosures.

Similarly, [Bhasin \(2016\)](#) administered a questionnaire among preparers and users of corporate financial statements in Malaysia to investigate CA practices. The study unveiled that CA is typically an intentional endeavour aimed at securing unjust advantages for accountants, managers, and companies. The researcher recommended that CA practices should be treated as serious offenses, prompting the adoption of stringent punitive measures by accounting bodies to curtail unethical CA practices.

[Nyabuti et al. \(2016\)](#) distributed a questionnaire among accountants to examine the ramifications of CA practices on the financial performance of companies listed on the Nairobi Securities Exchange (NSE) in Kenya. Their findings indicated a significant adverse impact of CA practices on the financial performance of affected companies, often culminating in their collapse when abused.

In a separate study, [Kamau et al. \(2015\)](#) assessed the factors influencing CA among companies listed on the NSE in Kenya. They identified various influential practices such as management compensation, contractual obligations, tax management, share price performance, and insider dealings. Moreover, [Kamau et al. \(2016\)](#) endeavoured to evaluate CA-related practices among NSE-listed companies in Kenya. Their findings highlighted the existence of a relationship between managerial compensation, contractual obligations, tax management, insider dealings, and CA among listed firms on the NSE. Particularly, they underscored the significant influence of managerial compensation as a determinant of CA among listed entities.

[Nisansala & Aruppala \(2016\)](#) employed questionnaire surveys among auditors to investigate the ramifications of CA practices on the financial performance of selected firms in Sri Lanka. Their findings highlighted the significant impact of tax avoidance on firm performance, with accelerated depreciation emerging as a notable factor influencing financial performance. Respondents indicated that firms often exploit accelerated depreciation to bolster their financial performance. Regarding the Gulf Cooperation Council (GCC) region, several studies have examined the role of CA. [Hussain et al. \(2002\)](#) scrutinized the accounting standards adopted by financial institutions across five GCC countries. They concluded that the increasing cooperation among GCC nations necessitates the harmonization of accounting systems and standards, which policymakers in these countries must address. Harmonization not only enhances transparency and efficiency within financial institutions but also facilitates globalization. [Alshorafa \(2015\)](#) sought to gauge the awareness of external auditors regarding CA methods in financial statements. The study revealed that auditors possess a high level of awareness and comprehension of CA methods, along with an

understanding of countermeasures against them. However, many auditors admitted to succumbing to competitive pressures, leading them to overlook CA procedures at times. Additionally, [Ismael \(2017\)](#) examined the ethical dimensions of CA techniques and their impact on the reliability of financial reporting, as perceived by auditors and academics. The study found that management's utilization of CA techniques has a detrimental effect on the reliability of financial reporting. Ismael concluded that statutory auditors can play a pivotal role in mitigating the impact of CA techniques on the reliability of financial reporting.

The existing body of empirical research examining various facets of CA within the GCC region remains relatively scarce. This underscores the necessity for further empirical investigation. Hence, the present study is conducted to address the following research inquiries:

RQ₁	<i>Is the use of CA techniques by companies listed on the KSE legal?</i>
RQ₂	<i>What are the main reasons behind companies listed on the KSE use of CA techniques?</i>
RQ₃	<i>What are the main areas where companies listed on the KSE adopt CA techniques?</i>
RQ₄	<i>What are the financial statements frequently subject to CA by companies listed on the KSE?</i>
RQ₅	<i>Which economic sectors of companies listed on the KSE more frequently use CA techniques?</i>
RQ₆	<i>Which CA techniques are frequently used by companies listed on the KSE?</i>
RQ₇	<i>What should be done to prevent companies listed on the KSE from using CA techniques by companies listed on the KSE?</i>

DATA COLLECTION AND STUDY METHODOLOGY

Between January and March 2022, a total of 100 questionnaires were disseminated to auditors affiliated with both major international audit firms (referred to as the "big-four") and local audit firms operating within Kuwait. Of these, 68 completed questionnaires were returned, yielding a usable response rate of 68%. The selection of respondents from these specific firms was deliberate, as previous scholarly inquiries have targeted them for similar investigations. These studies include those by [Baralexis \(2004\)](#), [Rabin \(2005\)](#), [Karim et al. \(2011\)](#), [Salome et al. \(2012\)](#), [Al Momani & Obeidat \(2013\)](#), [Micah & Chinwe \(2014\)](#), [Hamad \(2014\)](#), [Alshorafa \(2015\)](#), [Bhasin \(2015\)](#), [Rozidi et al. \(2015\)](#), [Wokukwu \(2015\)](#), [Asif et al. \(2016\)](#), [Nisansala & Aruppala \(2016\)](#), [Ismael \(2017\)](#), and [Pazarskis et al. \(2017\)](#). Moreover, external auditors affiliated with

these major firms are typically involved in auditing numerous companies listed on the KSE across various economic sectors, thus possessing extensive experience in various aspects of creative accounting practices. To maintain anonymity, confidentiality, and professional ethics, respondents were not required to disclose any information regarding their clients.

The questionnaire comprised two primary sections. The initial segment aimed to gather background information from participants, while the subsequent section contained inquiries pertaining to various dimensions of CA. Participants were requested to indicate their level of agreement using a 5-Likert scale, where 1 represented "strongly disagree" and 5 represented "strongly agree.". To evaluate the internal consistency of participants' responses, a Cronbach's Alpha coefficient of reliability test was conducted, yielding a coefficient of 0.942. This suggests a high level of internal consistency among participants' responses, as a reliability coefficient of 0.70 or higher is generally deemed acceptable in social science research. Descriptive statistics were employed to examine different facets of CA. Furthermore, to investigate whether participants' employers influenced their agreement levels on these aspects, the Mann-Whitney U test was utilized. This non-parametric test serves as an alternative to the independent-samples test and evaluates differences between two independent groups on ordinal or continuous measures. Instead of comparing means, as with the t-test, the Mann-Whitney U test compares medians to determine whether the ranks of the two groups differ significantly.

FINDINGS

Participants' Background

The initial segment of the questionnaire sought demographic information from respondents, encompassing nationality, gender, age, academic credentials, tenure in previous and current positions, marital status, job designation, number of companies engaged with, economic sector of companies, and employer. A tabulated overview of participants' demographic profiles is delineated in Table 1.

The table 1 highlights that the majority of participants are Kuwaiti nationals (82.4%) and predominantly male (79.4%). A significant portion hold bachelor's degrees (70.6%) and possess over a decade of professional experience. Moreover, more than half of the participants are aged 36 years or older and are married. Approximately 40% work as auditors or senior auditors, with experience spanning various economic sectors. Notably, nearly 65% have audited 10 or more companies. Furthermore, 53% are

employed by major international audit firms, while 47% work for local audit firms. The diverse backgrounds and extensive experience of participants lend credibility to the questionnaire analysis.

Table 1: Participant Background.

	#	%		#	%
Nationality			Gender		
Kuwaiti	56	82.4	Male	54	79.4
Non-Kuwaiti	12	17.6	Female	14	20.6
Total	68	100.0	Total	68	100.0
Age			Academic Qualifications		
Less than 25	2	2.9	Diploma	48	70.6
From 25-35	30	44.1	Bachelor	12	17.6
From 36-50	24	35.3	Masters	8	11.8
More than 50	12	17.6	PhD		
Total	68	100.0	Total	68	100.0
Previous Work Experience			Current Work Experience		
1-5 years	22	32.4	1-5 years	14	20.6
6-10 years	18	26.5	6-10 years	14	20.6
More than 10 years	28	41.2	More than 10 years	40	58.8
Total	68	100.0	Total	68	100.0
Marital Status			Job Title		
Married	54	79.4	Auditor	22	32.4
Not married	14	20.6	Financial Advisor	14	20.6
Total	68	100.0	Senior auditor	6	8.8
			Planner	8	11.8
Other	18	26.5			
Less than 10 companies	24	35.3	Total	68	100.0
10-20 companies	12	17.6			
21-30 companies	21	30.9	Companies economic sector		
More than 30 Companies	11	16.2	Banking	16	23.5
Total	68	100.0	Insurance	14	20.6
			Services	22	32.4
Employer			Manufacturing	4	5.9
KPMG	14	20.6	Oil and gas	8	11.8
Deloitte and Touche	22	32.4	Telecommunications	2	2.9
Daker Tilly	2	2.9	Real estate	2	2.0
Albazie and Co.	30	44.1	Total	68	100.0
Total	68	100.0			

The Legality or Otherwise of the Use of Creative Accounting

Participants were tasked with indicating their level of agreement regarding the legality of CA techniques employed by companies listed on the KSE. The findings are summarized in Table 2. The table suggests a strong inclination among participants towards viewing the use of CA techniques as legal, evident from the resulting mean score. However, the Mann-Whitney test revealed notable disparities in participants' agreement levels regarding the legality of all CA techniques utilized by Kuwaiti companies. This finding contrasts with previous studies by [Atik & Ismail \(2011\)](#), [Micah & Chinwe \(2014\)](#), [Rajput \(2014\)](#), and [Ismael \(2017\)](#), which concluded that CA practices are illegitimate.

Table 2: Legality or Otherwise of the Use of Creative Accounting.

	Mean	Median	Std. Dev.	Rank	Mann-Whitney Test	
All creative accounting techniques employed by the Kuwaiti companies are legal	3.26	3.00	1.43	1	-3.49	0.00
More than 90% of the creative accounting techniques employed by Kuwaiti companies are legal	2.85	3.00	0.92	5	-2.76	0.01
More than 75% of the creative accounting techniques employed by Kuwaiti companies are legal	2.90	3.00	0.85	4	-1.84	0.07
More than 50% of the creative accounting techniques employed by Kuwaiti companies are legal	3.09	3.00	0.89	2	-3.95	0.00
More than 25% of the creative accounting techniques employed by Kuwaiti companies are legal	2.99	3.00	0.91	3	-2.21	0.03
Most of the creative accounting techniques employed by Kuwaiti companies are illegal	2.63	3.00	0.83	6	-0.35	0.73

Reasons Behind the Use of Creative Accounting Techniques

Participants were presented with a compilation of potential rationales driving the adoption of various CA techniques by companies listed on the KSE. They were instructed to indicate their degree of agreement with each of these rationales. The findings from their responses are succinctly outlined in Table 3.

Table 3: Reasons Behind the Use of Creative Accounting Techniques.

	Mean	Median	Std. Dev.	Rank	Mann-Whitney Test	
Overstate the reported income	3.06	3.00	1.05	14	-1.425	.154
Either overstate or understate the reported income	2.97	3.00	0.96	22	-.225	.822
Enhance borrowing from banks	3.26	3.00	0.92	3	-3.846	.000
Attract investment from the financial markets	3.50	4.00	0.74	1	-1.284	.199
Facilitate listing on the stock exchange	3.18	3.00	0.83	9	-1.515	.130
Attract potential investors	3.26	3.00	0.75	3	-1.651	.099
Meet existing investors' expectations	3.35	3.00	0.81	2	0.000	1.000
Affect stock prices on the stock exchange	3.21	3.00	0.97	6	-2.131	.033
Improve corporate public image	3.18	3.00	0.93	9	-1.418	.156
Influence dividend pay-out	3.24	3.00	0.81	5	-.828	.407
Maintain certain levels of income	3.21	3.00	0.87	6	-.692	.489
Deal with possible acquisition or merger	3.00	3.00	0.88	20	-.114	.909
Cover fraud	2.97	3.00	0.93	22	-2.176	.030
Cover bad management	3.00	3.00	0.88	20	-2.841	.005
Enhance management compensation	3.06	3.00	1.01	14	-2.880	.004
Smooth earnings	3.03	3.00	0.83	17	-2.922	.003
Maintain certain capital structure	2.82	3.00	0.67	25	-2.288	.022
Stabilize income	2.79	3.00	0.76	26	-2.147	.032
Affect agency cost	2.74	3.00	0.92	27	-1.539	.124
Face competitors	3.06	3.00	0.73	14	-2.243	.025
Avoid increase/ decrease in salaries and wages	3.03	3.00	0.71	17	-.928	.354
Force partners to stay/ leave the company	2.97	3.00	0.99	22	-3.235	.001
Attract new or get rid of existing employees	3.03	3.00	0.93	17	-1.515	.130
Affect government support	3.09	3.00	1.02	13	-.683	.494
Maintain the firm's credit rating	3.15	3.00	1.04	11	-1.486	.137
Maintain the Ownership structure	3.21	3.00	0.91	6	-2.363	.018
Allow management and employees exercise share options plans	3.12	3.00	0.91	12	-1.146	.252

Table 3 illustrates that participants generally concurred with the majority of the reasons delineated in the questionnaire. Notably, reasons garnering the highest agreement levels encompassed attracting investment from financial markets, meeting existing investors' expectations, enticing potential investors, bolstering borrowing from banks, influencing dividend pay-out, impacting stock prices on the stock exchange, maintaining income levels, preserving ownership structure, facilitating stock exchange listing, and enhancing corporate public image. This finding aligns with prior research outcomes by Baralexis (2004), Karim et al. (2011), Malik et al. (2011), Ibanichuka & Ihendinihu (2012), Salome et al. (2012), Wokukwu (2015), and Kamau et al. (2015).

Conversely, reasons garnering the lowest agreement levels among participants in the questionnaire survey included affecting agency cost, stabilizing income, maintaining specific capital structure, concealing fraud, influencing partners' retention or departure, as well as either inflating or deflating reported income, and managing potential acquisitions or mergers.

The Mann-Whitney U test revealed unanimity among participants, irrespective of their employers, concerning reasons with the highest agreement levels, except for those relating to bolstering borrowing from banks and influencing stock prices on the stock exchange. Conversely, significant differences emerged among participants regarding reasons with the lowest agreement levels, excluding those pertaining to affecting agency cost and managing potential acquisitions or mergers.

The Main Areas of Creative Accounting

CA may encompass various strategies, such as manipulating income recognition, implementing income-smoothing policies, or disclosing specific accounts or off-balance sheet financing to influence profitability and capital structure. Participants were tasked with indicating their level of agreement regarding potential areas of CA. The analysis of their responses is presented in Table 4.

Table 4: The Main Areas of Creative Accounting.

	Mean	Median	Std. Dev.	Rank	Mann-Whitney Test	
Accounting measurements	2.56	2.00	1.04		-2.129	.033
Accounting policies	2.41	2.00	0.98		-2.732	.006
Accounting disclosure	2.53	2.50	0.82		-.588	.557

Table 4 indicates that participants concurred that CA techniques are more apt to be employed through accounting measurements and disclosures. This finding is consistent with the research of [Wokukwu \(2015\)](#). Participants demonstrated less agreement with the notion that companies listed on the KSE could utilize accounting policies to engage in CA. The notable high standard deviations observed in the instances of accounting measurements and accounting disclosure suggest substantial variance in participants' responses. This observation is corroborated by the outcomes of the Mann-Whitney U test.

Financial Statements More Frequently Subject to Creative Accounting

Participants were prompted to indicate their level of agreement regarding whether CA practices adopted by companies listed on the KSE are more inclined to impact the income statement or the balance sheet. The analysis of their responses is presented in Table 5.

Table 5: Financial Statements More Frequently Subject to Creative Accounting.

	Mean	Median	Std. Dev.	Rank	Mann-Whitney Test	
Income Statement	3.12	3.00	1.38	2	-.057	.954
Balance Sheet	3.29	3.00	1.41	1	-.695	.487

Table 5 indicates that CA practices employed by companies listed on the KSE have an impact on both the income statement and the balance sheet, as evidenced by the resulting means. This finding is corroborated by the findings of [Pazariskis et al. \(2017\)](#) and [Jabbar \(2018\)](#). However, the table suggests that CA is more likely to influence the balance sheet than the income statement. This outcome aligns with the findings reported by [Malik et al. \(2011\)](#). Nevertheless, this study's findings diverge from those of [Atik & Ismail \(2011\)](#), [Ibanichuka & Ihendinihu \(2012\)](#), [Ijeoma \(2014\)](#), [Hamad \(2014\)](#), [Kamau et al. \(2015\)](#), [Nyabuti et al. \(2016\)](#), [Kamau et al. \(2016\)](#), and [Nisansala & Aruppala \(2016\)](#). The results of the Mann-Whitney U test underscore unanimity among participants regarding the influence of CA on both the income statement and the balance sheet of companies listed on the KSE.

The Use of Creative Accounting in Various Economic Sectors

It was imperative to ascertain the economic sectors in which companies listed on the KSE are predominantly engaged in employing CA techniques. Participants were tasked with ranking these economic sectors based on the prevalence of CA techniques. The summary of participants' rankings is presented in Table 6.

Table 6: The Use of Creative Accounting in Various Economic Sectors

Economic Sector	Mean	Median	Std. Dev.	Rank	Mann-Whitney Test	
Banking	4.29	3.00	2.66		-1.390	.164
Insurance	5.00	4.50	2.61		-.995	.320
Services	5.15	4.50	2.06		-.453	.651
Manufacturing	5.18	6.00	2.04		-1.797	.072
Oil and Gas	5.53	6.00	2.17		-2.403	.016
Telecommunications	5.32	6.00	2.07		-3.161	.002
Health care	5.06	6.00	2.20		-.391	.696
Real estate	5.00	5.50	2.24		-.941	.347
Technology	4.50	4.00	2.05		-.056	.955

Table 6 revealed that CA is predominantly conducted within the oil and gas, telecommunications, and manufacturing sectors. Conversely, participants indicated that CA is less likely to be adopted by companies operating in the banking, technology, and real estate sectors. Significant differences were observed in the participants' responses within the telecommunications and oil and gas sectors, as highlighted by the Mann-Whitney U test. These disparities are attributed to the limited number of companies within these sectors.

Frequently Used Creative Accounting Techniques by Companies Listed on KSE

Participants were tasked with indicating their level of agreement regarding a list of CA techniques anticipated to be utilized by companies listed on the KSE. The analysis of their responses is synthesized in Table 7.

The table indicates that participants identified several frequently used CA techniques by companies listed on the KSE, such as off-balance sheet financing, interest costs capitalization, multiplicity of accounting policies and treatments, pre-acquisition write down, and R&D capitalization. Conversely, CA techniques with the lowest agreement levels among participants include: no provision for employee compensation due to retirement, capitalizing fixed assets repairs and maintenance expenses, no provision or low provision for bad debts, timing of delivery of goods delayed to the next financial year, and recognition of unearned revenue as revenue. The Mann-Whitney U test revealed consensus among participants regarding most of the listed CA techniques.

Table 7: Creative Accounting Techniques Frequently Used by Companies Listed on KSE.

	Mean	Median	Std. Dev.	Rank	Mann-Whitney Test	
Off- balance sheet financing	4.06	4.00	1.91	1	-1.651	.099
Multiplicity of accounting policies and treatments	3.29	3.00	1.37	3	-1.618	.106
Pre-acquisition write-down	3.24	3.00	1.47	4	-.820	.412
Disposals refer to profits gained from selling assets recorded "above the line," as well as the deconsolidation of subsidiaries in anticipation of their sale;	3.03	3.00	1.54	13	-1.121	.262
Deferred consideration related to acquisitions	3.15	3.00	0.89	6	-.881	.379
Items categorized as extraordinary or exceptional	2.91	3.00	0.99	21	-.853	.394
Contingent liabilities and commitments	3.09	3.00	0.96	8	-.736	.462
Interest costs capitalization	3.32	3.00	0.84	2	-.230	.818
R & D capitalization	3.21	3.00	0.87	5	-.058	.953
Brand accounting – capitalization of assets;	3.12	3.00	1.03	7	-1.968	.049
Operating and capitalization of lease	3.03	3.00	0.86	13	-1.335	.182
Revisions in depreciation policy (method or duration);	3.09	3.00	0.99	8	-.626	.531
Convertible securities with premium put options or preferred stocks with variable rates;	3.03	3.00	0.79	13	-.059	.953
Utilization of pension fund surplus to decrease yearly expenses	3.06	3.00	0.81	11	-1.619	.106
Overstatement of postretirement benefit liability to reduce earnings	3.09	3.00	0.86	8	0.000	1.000
Currency mismatching between borrowing and deposition	3.00	3.00	0.95	17	-.680	.496
No provision or low provision for bad debts	2.74	3.00	0.99	28	-1.930	.054
Failure to allocate funds for employee retirement benefits	2.38	2.50	0.98	30	-.734	.463
Capitalizing fixed assets repairs and maintenance expenses	2.68	3.00	0.87	29	-1.564	.118
Inventory being valued at historical cost rather than its lower market value	3.03	3.00	0.86	13	-1.977	.048
Recognition of accrued expense as expenses	2.82	3.00	0.86	24	-.705	.481
Treating unearned revenue as earned revenue	2.79	3.00	0.87	26	-1.040	.298
Confusing short-term liabilities with long-term liabilities	2.82	3.00	0.62	24	-2.602	.009
Assets recognition under sale and leaseback without ownership	2.97	3.00	0.67	19	-3.958	.000
Modification of the inventory valuation approach	3.06	3.00	0.69	11	-.067	.946
Taking out loans at the conclusion of the period to enhance liquidity ratios	3.00	3.00	0.73	17	-3.246	.001
Investments classification between short term and long term	2.94	3.00	0.73	20	-2.355	.019
Recognition of profit on forward exchange agreement	2.88	3.00	0.68	22	-3.376	.001
Not consolidating controlled subsidiaries	2.88	3.00	0.64	22	-1.866	.062
Timing of delivery of goods delayed to next financial year	2.79	3.00	0.76	26	-2.890	.004

Creative Accounting Prevention

Participants in the questionnaire survey were provided with a roster of measures aimed at preventing the utilization of CA techniques by companies listed on the KSE. They were then asked to indicate the extent of their agreement with each measure. The analysis of participants' responses is delineated in Table 8.

Table 8: Creative Accounting Prevention.

	Mean	Median	Std. Dev.	Rank	Mann-Whitney Test	
Insuring that the company is adopting one bookkeeping and accounting systems	3.35	3.00	1.12	2	-1.688	.092
Creating an ethical environment within the company	3.35	3.00	1.06	2	-2.135	.033
Adding independent staff to the board of directors who have intensive accounting and finance knowledge	3.24	3.00	0.95	13	-.626	.532
Introducing strict accounting standards	3.32	3.00	0.76	4	-1.907	.056
Adopting strict internal audit	3.38	3.50	0.98	1	-1.254	.210
Providing full independence for the internal auditors necessary to curb the practice of creative accounting	3.26	3.00	1.05	9	-.511	.609
Conducting regular reviews of certain accounts	3.32	3.00	0.91	4	-.059	.953
Adopting effective corporate governance	3.26	3.00	0.99	9	-.460	.646
Support the supervisory role of the audit committees	3.26	3.00	1.07	9	-1.080	.280
Ensuring external auditors' independency, integrity and objectivity	3.29	3.00	0.99	8	-.171	.864
Imposing deterrent penalties on internal auditors who fail to disclose instances of creative accounting	3.26	3.00	1.05	9	-.904	.366
Introducing judicial accounting legislation for all listed companies	3.32	3.00	1.03	4	-2.072	.038
Enhancing the involvement of external auditors in revealing instances of creative accounting	3.32	3.00	0.97	4	-1.463	.143

Participants strongly agreed with all listed preventive measures against CA techniques, including strict internal audit, uniform bookkeeping systems, ethical work environments, stringent accounting standards, regular account reviews, legal frameworks, and active external auditor roles. The Mann-Whitney U test revealed minor differences in participant opinions, likely stemming from varying levels of agreement with the preventive measures.

CONCLUSION

This study investigates CA practices among companies listed on the KSE through a questionnaire distributed to auditors. Findings reveal that CA practices are deemed legal and are often used to attract and meet investor expectations. CA involves both measurement and disclosure, primarily affecting the balance sheet, and is prominent in sectors like oil and gas, telecommunications, and manufacturing. Common techniques include off-balance sheet financing and capitalization of interest costs. Preventive measures include strict internal audits and uniform accounting systems. These findings can inform Kuwaiti authorities in ensuring financial transparency. Further insights from accountants could enhance understanding of CA practices.

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